

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

DISTRICT OF COLUMBIA

**MANAGEMENT LETTER
FISCAL YEAR 2004**



**AUSTIN A. ANDERSEN
INTERIM INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



April 8, 2005

The Honorable Anthony A. Williams
Mayor
District of Columbia
John A. Wilson Building, Suite 600
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Williams and Chairman Cropp:

In connection with the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2004, KPMG LLP submitted the enclosed final Management Letter. We are pleased to report, as noted by KPMG LLP, that over the last 5 fiscal years there has been a marked improvement in the management of the District's financial affairs. This Management Letter details certain matters involving internal control and other operational matters that require continued management attention which is presented as follows:

- Appendix A – Reportable Conditions in Internal Control Over Financial Reporting; and
- Appendix B – Other Observations and Recommendations on Internal Control and Financial Operations.

KPMG set forth recommendations for correcting reportable conditions and other deficiencies. While the Office of the Inspector General will continue to assess the District agencies' implementation of recommendations, it is the responsibility of District government management to ensure that agencies correct the deficiencies noted in audit reports. This Office will work with managers, as appropriate, to help them monitor the implementation of recommendations.

Mayor Williams and City Council Chairman Cropp
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If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audits, or me at (202) 727-2540.

Sincerely,

A handwritten signature in blue ink, reading "Austin A. Andersen". The signature is fluid and cursive, with a long horizontal stroke at the end.

Austin A. Andersen
Interim Inspector General

Enclosure

AAA/ws

cc: See Distribution List

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

GOVERNMENT OF THE DISTRICT OF COLUMBIA

Letter to Management on Internal Control

September 30, 2004

March 24, 2005

To the Mayor and Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia:

Ladies and Gentlemen:

We have audited the basic financial statements of the Government of the District of Columbia (District), for the year ended September 30, 2004, and have issued our report thereon dated January 24, 2005. In planning and performing our audit of the basic financial statements of the District, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented in the appendices for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies.

Our audit procedures are designed primarily to enable us to form an opinion on the basic financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the District's organization gained during our audit work to make comments and suggestions that we hope will be useful to you. We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Mayor and Council of the District, the Inspector General of the District, District management, and others within the District government and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Executive Summary

Over the last five fiscal years, as the District's independent auditors, we have witnesses marked improvement in the management of the District's financial affairs. Important milestones that the District is understandably proud to report to the Council and its citizenry are:

- Removal of Control Board oversight;
- Eight consecutive years of unqualified opinions on the District's basic financial statements included in its Comprehensive Annual Financial Report (CAFR);
- Return of operations that had been placed in receivership by the District courts;
- Successful implementation of Governmental Accounting Standards Board's Statement No. 34, the most far reaching change in governmental accounting and financial reporting to date;
- Implementation of a District-wide financial and compliance audit of its federal awards programs;
- Continuous improvement in General Obligation bond ratings from BBB to A;
- Continuous acknowledgement of excellence in financial reporting from the Government Finance Officer's Association (for its CAFR, Budget Document, and most recently for its Popular Annual Financial Report); and
- Continuous improvement in internal control, evidenced by the reduction in the number of reported material weaknesses three and reportable conditions six in FY 2000, to zero and two, respectively in FY 2004.

Address Reportable Conditions

As noted above, the District has taken corrective actions to address and eliminate a number of reportable conditions in internal control, some of which were material weaknesses. The next step in continuing to improve the District's financial reporting infrastructure is to address the remaining reportable conditions highlighted in our Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (Yellow Book Report), and to implement a process to continuously monitor compliance with established internal control policies and procedures

Reportable conditions relate to significant deficiencies in the design or operation of internal control over financial reporting that could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management. These reportable conditions, while not as serious as material weaknesses, warrant District management attention. Matters currently classified as reportable conditions that are not considered to be material weaknesses are as follows:

- Management of Disability Compensation Program
- Unemployment Compensation Claimant File Management

These current year reportable conditions and our recommendations are repeated in Appendix A. Our management letter comments, presented in Appendix B, highlight other internal control and financial management observations made during our audit, and what actions we believe the District should take to ensure its financial management infrastructure continues to improve. Management responses to our observations and recommendations are included in Appendices A and B. We have carefully considered those responses where management indicates that it disagrees with either our observations or recommendations. We continue to believe our comments are valid and that implementation of our recommendations will result in stronger internal controls or operational and financial management improvements.

New Accounting Pronouncements

Although there are no significant new accounting pronouncements that will need to be implemented during fiscal year (FY) 2005, there were two significant accounting pronouncements issued during FY 2004 as Governmental Accounting Standards Board (GASB) Statements that will significantly impact the District's future government-wide financial position.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, an amendment to GASB Statement No. 34, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* addresses accounting and financial reporting of post-employment benefits other than pension benefits (OPEB) by employers and plans or other entities that administer them. The principal impact of this Statement on the District relates to post-employment healthcare benefits that the District currently reports on a pay-as-you-go basis. GASB Statement No. 45 will require the District to accrue for post-employment benefits to be provided to employees and retirees, thus adding a significant liability not currently recorded in the District's government-wide financial statements.